



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Amathole District Municipality

Audit Report

For the year ended 30 June 2014

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE AMATHOLE DISTRICT MUNICIPALITY

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the Amathole District Municipality and its subsidiary set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Amathole District Municipality and its subsidiary as at 30 June 2014 and their financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses

8. As disclosed in note 55 to the consolidated and separate financial statements, material losses of R90,5 million (2013: R60 million) were incurred as a result of water distribution losses.

Material impairments

9. As disclosed in note 12 to the consolidated and separate financial statements, cumulative debt impairments totalling R390,9 million (2013: R296,9 million) were disclosed relating to receivables from exchange transactions.

Restatement of corresponding figures

10. As disclosed in note 52 to the consolidated and separate financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during the year ended 30 June 2014 in the consolidated and separate financial statements of the municipality at, and for the year ended, 30 June 2013.

Additional matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure note

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion thereon.

Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Development priority 2: basic service delivery and infrastructure investment, on pages xxx to xxx
 - Development priority 4: municipal finance viability and management, on pages xxx to xxx
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

Additional matter

20. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matter:

Achievement of planned targets

21. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year.

Compliance with legislation

22. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements, performance report and annual report

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. A material misstatement of a disclosure note identified by the auditors in the submitted financial statements was subsequently corrected and/or the supporting records provided, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

24. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

25. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by supply chain management (SCM) regulation 13(c).
26. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, as required by SCM regulation 17(a) and (c).

Consequence management

27. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

28. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on non-compliance with legislation included in this report.

Leadership

29. Senior management did not adequately exercise their oversight responsibility over financial reporting, compliance and related internal controls. This was the result of not adequately monitoring the functioning of internal controls, in-year reporting and progress with the implementation of the audit action plan. In addition, there was a slow response to our messages by the leadership and a lack of consequences for poor performance and transgressions. As a result, there were instances of non-compliance with the MFMA as well as substantial updating of records and corrections only during the preparation of the consolidated and separate financial statements and the audit process.

Financial and performance management

30. The reliance by management on both the consultants and the audit process to achieve fair presentation did not create a sustainable platform for achieving clean administration. The systems for assets and capital commitments were not kept up to date and adequately reconciled during the year, which resulted in material misstatements only being identified during the audit process and compliance with applicable laws and regulations not being adequately monitored during the year.

Governance

31. Although the internal audit unit and audit committee met regularly throughout the year, they were not fully effective in strengthening the control environment within the municipality, as their recommendations were not fully implemented by management. Consequently, material misstatements in the consolidated and separate financial statements and material non-compliance findings were only identified during the audit process.

OTHER REPORTS

Investigations

32. An internal investigation is being conducted into the alleged fraudulent procurement of goods and services using fraudulent requisitions. The investigation is in progress and the expected date of the outcome is unknown.
33. An independent firm was appointed to conduct an investigation into a suspected fictitious payment to a co-operative for services that were never rendered. The investigation is in progress and has been handed over to the Hawks. The expected date of the outcome is unknown.
34. An independent firm was appointed to conduct an investigation into interference with the municipality's server, which led to the collapse of the information technology system. The investigation is in progress and has been handed over to the Hawks. The expected date of the outcome is unknown.

Auditor - General

East London

8 December 2014



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